



## WEST SHORE MEDICAL CENTER

Partnering with  MUNSON HEALTHCARE

To: Representative Mike Callton, Chairman  
Health Policy Committee  
Members, Health Policy Committee

From: James Barker, CEO  
West Shore Medical Center  
Manistee, MI

Date: January 26, 2016

Re: HB 5138

Thank you for allowing me to speak today in support of HB 5138 and the important impact that bill would have on West Shore Medical Center in Manistee, MI where I have the privilege of serving as CEO. HB 5138 amends section 305a of Act 230 of the Public Acts of 1987, by lowering the census numbers in subsection (1)(a) from between 40,000 and 44,000 people according to the 2000 decennial census to between 26,000 and 30,000 according to the 2010 decennial census and extending the completion date for restructuring a Public Act 230 hospital until June 30, 2017.

West Shore Medical Center is a municipal health facilities corporation, organized under 1987 PA 230 (PA 230), the act that HB 5138 would amend. We are a small, 45 licensed bed, acute care hospital located in rural Northwest Michigan. We are the only hospital in Manistee County. The nearest hospital is located 30 some miles away in Ludington.

For our entire history, we have been a self-sustaining hospital. Although the County of Manistee helped finance the construction of our main hospital building back in the late 60s and early 70s, since that time, West Shore has received no public funds from the county, in the form of either appropriations or property tax millage.

As a small, rural hospital, West Shore faces many challenges as it looks to the future, among them are these:

- While we project a small, but shrinking net asset position for the next 2 to 3 years, beyond that, our ability to provide cost-effective health care becomes problematic. An analysis of our financial statements would reveal that a fair portion of our net income over the last few years has come from federal programs that are scheduled to be phased out in the next year or so. Chief among these has been the federal "meaningful use payments" we have received for implementing electronic record keeping across our organization. In the absence of new sources of income, West Shore will not be able to maintain the level of services it now provides to the Manistee community.
- Our physical plant is aging and quickly becoming obsolete. When West Shore opened in 1970, it was licensed for 95 inpatient beds. Today, as I noted, our licensed beds are less than half of that, and our inpatient census rarely exceeds 20. This reflects the larger, ongoing shift in health care nationwide from inpatient services to same day services and outpatient

services. Our hospital building was designed 45 years ago as an inpatient facility, not an outpatient facility, and while we have made substantial upgrades and improvements over the years, our infrastructure is in critical need of further modernization focused on efficient delivery of outpatient services if we are going to compete in the health care market and provide the range of health care services our community needs and has come to expect. Unfortunately, despite a strong balance sheet, West Shore has had only limited access to the capital markets since 2008, and standing alone we have no ability to finance new construction or major remodeling of our outdated facilities. All of the major lenders to which we have spoken inform us that our lack of access to the capital markets is directly related to our small size and the fact that we are not part of a larger health system.

- Lastly, as you know, under the Affordable Care Act, there is a planned transition by Medicare and Medicaid—as well as private insurers who follow their lead—to pay health care providers, including hospitals, for the value of the services provided, rather than the volume of services provided to a patient. Accountable Care Organizations (ACO) and medical homes are being set up now based on this premise, and West Shore must participate in these in order to survive as a hospital. As a PA 230 hospital, however, West Shore is at a severe disadvantage in this new arena. Under the ACO model currently in place through 2016, local providers share in the upside risk of these organizations. In other words, if the ACO is able to service its population of patients and have some of the money it is paid left over, all of the providers in the ACO may share in that excess. Starting soon, however, the ACO agreements we will be asked to sign will require providers to share both upside and downside risk, meaning that if the ACO loses money, the providers will be required to cover those losses. Under Art 9, Section 18 of the Michigan Constitution, which prohibits the lending of the state's credit, there are serious questions whether West Shore Medical Center and other PA 230 hospitals may share downside risk with other, private healthcare providers, without violating this constitutional prohibition.

In light of these challenges, West Shore Medical Center has two choices: It can struggle into the future until, eventually, it needs to ask Manistee County to support it with appropriations or the citizens of Manistee County to support it with their tax dollars. Neither of these is an assured source of future revenue for West Shore. Alternatively, it can seek out a health care partner with which it can merge.

West Shore Medical Center has chosen the second path and has begun negotiations with Munson Healthcare, a private, non-profit nine-hospital system, headquartered in Traverse City, MI, looking to a formal affiliation between the two. In order to accomplish any affiliation with a private, non-profit corporation, however, West Shore needs to restructure itself from a PA 230, municipal health facilities corporation into a private, non-profit corporation.

Presently, under PA 230, there is only one possible method by which West Shore Medical Center could become affiliated with Munson. Under section 306 of PA 230, Manistee County and the hospital may set up a new, non-profit corporation and, after it receives a charitable designation from the Internal Revenue Service, transfer or sell the assets, liabilities, licenses, billing

Testimony of James Barker, CEO  
West Shore Medical Center  
HB 5138  
January 26, 2016

numbers, payor contracts and agreements, as well as all of the 300 plus employees of West Shore to that new non-profit, at which time, it could then merge or member substitute with Munson Healthcare. It is conservatively estimated that to accomplish such a restructuring will take upwards of six months.

The other way for a PA 230 hospital to convert from a public hospital to a private, non-profit hospital is through the method outlined in section 305a of PA 230, which was added to the statute by 2012 PA 331. Under that section, conversion to a private non-profit happens by operation of law, and the new non-profit corporation is considered a "continuation" of the former PA 230 hospital. No transfer of assets has to occur, all licenses and provider numbers, agreements, all employees and the like stay in place.

Section 305a, however, has already sunset as to transactions occurring after July 1, 2012, and by its terms, only applies to PA 230 hospitals located in counties with population levels between 40,000 and 44,000, according to the 2000 decennial census. HB 5138 that is before the Committee today, would lower those population figures to between 26,000 and 30,000, according to the 2010 census, and extend the deadline for accomplishing a restructuring to June 30, 2017.

I am here today to ask the Committee to approve HB 5138, so that Manistee County, West Shore Medical Center and Munson Healthcare could, if they so choose, utilize Section 305a to facilitate the merger between the two hospitals. Compared to a restructuring under Section 306, a Section 305a restructuring would save everyone involved much time and expense and eliminate many of the risks that are inherent in a Section 306 restructuring, and it is for that reason that I speak to you today in support of HB 5138.

Thank you for your time and consideration. If you should have any questions, please feel free to contact me at your convenience.

James Barker, CEO  
West Shore Medical Center  
1465 E. Parkdale Ave.  
Manistee, MI 49660  
231-398-1101  
[bar.jam@wsmed.org](mailto:bar.jam@wsmed.org)

C: Jeff Dontz, Chairman, Manistee County Board of Commissioners  
Ed Ness, President, Munson Healthcare

